



# **CURRENCY**

## **Committee on Financial Services**

**Michael G. Oxley, Chairman**

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### **BACHUS TO GAVEL HEARING ON OLD, ANTI-COMPETITIVE BANKING LAWS**

Subcommittee Chairman Spencer Bachus (AL) and the members of the House Subcommittee on Financial Institutions and Consumer Credit will hear testimony on allowing banks to provide interest on business checking account deposits and requiring the Federal Reserve to pay interest on bank reserves. The hearing will begin at 2 p.m. on Tuesday, March 13, in Room 2128 of the Rayburn House Office Building.

No longer applicable in today's financial marketplace, the prohibition against banks offering interest on business checking accounts has existed since the Great Depression. At the time, it was perceived that competition among banks for the limited amount of available capital was worsening the nation's liquidity problem, so the ban on interest for business checking accounts was born.

"Small business owners, particularly those in rural areas, and small-town bankers are the folks who lose," said Subcommittee Chairman Bachus. "Smaller banks do not have the resources and technology to offer more sophisticated types of accounts, so they lose their ability to offer competitive services to their customers. Banks need to attract deposits to remain competitive in today's financial marketplace. Allowing them to pay interest to their business customers will help."

Small business owners are disadvantaged because they tend to bank at smaller institutions. If they choose to bank at larger institutions, their smaller deposits typically mean they won't qualify for complicated mechanisms such as "sweep accounts." Larger banks offer these products, which circumvent the ban on interest-bearing checking accounts, to larger business depositors.

America's 25 million small businesses create 98 percent of the new businesses and 75 percent of the new jobs in the U.S. They employ 53 percent of the private sector

workforce and hire a larger proportion of employees who are younger, older, female, or part-time.

Additionally, the entry of securities firms into small business financial services has sharpened the competition facing small banks. This argues for lifting the ban, since all service providers should compete under approximately the same government regulations.

"Ensuring that businesses can earn interest on their checking accounts, while preserving safe and sound operation of community banks, has been one of my highest priorities. Everyone can benefit from this legislation if it is properly constructed," said Rep. Sue W. Kelly (NY). "I look forward to continuing to work on this issue and will be reintroducing my legislation tomorrow."

"Small business owners ought to earn interest on their money just like everyone else," said Rep. Patrick J. Toomey (PA). "It's time to adapt this Depression-era law to the realities of the 21<sup>st</sup> Century."

On the issue of interest on reserves, the Federal Reserve requires its member banks to maintain cash reserves to cover potential withdrawals and to help the Fed manage the nation's monetary supply. No interest is paid to depository institutions on these funds; therefore, they are referred to as "sterile." The payment of interest on banking reserves would provide incentives for financial institutions to increase their reserve balances voluntarily. In recent years, these balances have been dropping, holding potential consequences for the Fed's ability to conduct monetary policy.

"In the competitive financial marketplace, no one should have the free use of someone else's money," said House Financial Services Chairman Michael G. Oxley (OH). "Individual consumers pay interest when they take out a car loan, home loan, or student loan. And yet, the government wants its loans for free---it requires loans of reserves and doesn't pay a penny of interest. Our government has always taken this privilege with other people's money, but the free ride should end."

In his recent appearance before the House Financial Services Committee, Federal Reserve Chairman Alan Greenspan expressed support for legislation to direct the payment of interest on bank reserves and to allow interest on business checking deposits.

## **Panel I**

Laurence H. Meyer, Member, Board of Governors, Federal Reserve System

Donald V. Hammond, Acting Under Secretary for Domestic Finance, Department of the Treasury

## **Panel II**

James E. Smith, Chairman and Chief Executive Officer, Citizens Union State Bank & Trust of Clinton, Missouri, President-Elect of the American Bankers Association

David A. Bochnowski, Chairman and Chief Executive Officer, Peoples Bank of Munster, Indiana, Chairman of America's Community Bankers

Thomas P. Jennings, Senior Vice President and General Counsel, First Virginia Banks, Inc., on behalf of the Financial Services Roundtable

Robert Gullledge, President and Chief Executive Officer, Citizens Bank, Inc. of Robertsdale, Alabama, President of the Independent Community Bankers of America

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